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# CURRENT INTELLIGENCE WEEKLY SUMMARY



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**CURRENT INTELLIGENCE WEEKLY SUMMARY**

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**THE WEEK IN BRIEF**

**PART I**

**OF IMMEDIATE INTEREST**

**SUMMIT CONFERENCE DEVELOPMENTS . . . . . Page 1**

**Western European Views:** Representatives of the major Western European powers describe themselves as under strong public pressure to explore thoroughly at Geneva and afterwards any avenue which might lead to an East-West understanding. The British, French, and West German governments hope for some concrete achievements at Geneva and are showing increasing signs of a willingness to make specific concessions to the USSR during meetings which may follow. [REDACTED]

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**Soviet Indications:** The TASS statement of 12 July indicates that the USSR intends at Geneva to concentrate on new proposals for European security and to discuss Germany only in that context. TASS gave no clue as to what new proposals might be made on European security, but it added to the evidence that the USSR would give high priority at Geneva to a security plan which would probably go considerably further than the Molotov plan of February 1954. [REDACTED]

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**Soviet Delegation:** The presence of Khrushchev, Bulganin and Molotov at Geneva will enable the Soviet delegation to make "on-the-spot" decisions and thus facilitate the work of the conference. [REDACTED]

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**PART II**

**NOTES AND COMMENTS**

**New Soviet Appointments Strengthen Khrushchev's Position:** The latest appointments to the presidium and secretariat of the Soviet Communist Party probably strengthen Khrushchev's position and suggest that he will make a bid for more complete consolidation of his power at the 20th Party Congress scheduled for February 1956. [REDACTED]

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USSR Exhibits High Achievement in Nuclear Research: Soviet equipment for nuclear research is now known to include the world's largest high-energy proton synchro-cyclotron. Articles in Soviet journals reporting experiments performed with this apparatus show that the work is of high technical caliber, in some cases surpassing similar research performed in the United States and in other cases dealing with entirely new data.

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[REDACTED] . . . . . Page 2

Large Soviet Military Loan to China Disclosed: Communist China has been receiving large quantities of military materiel from the Soviet Union under a loan arrangement, according to the 1955 budget report released by Peiping this month. The report did not disclose the value of the 1955 military loan, but indicated that in 1954 apparently more than \$200,000,000 worth of Soviet equipment was financed by a loan. These are the first announced Soviet military loans to China.

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[REDACTED] . . . . . Page 2

Formosa Straits: Peiping continues to await reports from its diplomatic intermediaries, from "neutral countries," and on developments at the summit meeting, apparently in order to assess prospects for Sino-American talks and other international negotiations. The military situation in the Formosa Straits remained quiet last week.

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[REDACTED] . . . . . Page 3

Peiping's Campaign Against Counterrevolutionaries: Peiping's recent accounts of arrests for espionage, counterrevolutionary activity and assorted crimes do not seem to indicate that the regime is faced with an immediate threat. The propaganda of recent months suggests that the regime hopes to induce the Chinese people to work harder, be less critical of party policies, and ask less for their pains.

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[REDACTED] . . . . . Page 4

Vietnam: The Sino-Soviet bloc is using Ho Chi Minh's trip to Peiping and Moscow to demonstrate Communist solidarity and to underscore the importance attached to the Viet Minh objective of gaining control over all Vietnam. In South Vietnam, Premier Diem is faced with growing opposition from the Cao Dai sect. He remains opposed to elections under the Geneva agreement and may say so publicly in the next few days.

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France Hastens to Cut Responsibilities in Indochina:

France is speeding the liquidation of its private and official interests in Vietnam and evidently is preparing to renounce all its military and political responsibilities in the area. Paris will probably disclaim any special responsibility for consultations with the Viet Minh on all-Vietnamese elections and may attempt to make all nine powers which participated in the Geneva declaration--including the United States--responsible for fulfillment of the agreement. [ ]

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Laos: The cease-fire which followed the Pathet Lao recon-naissance in force at Muong Peun is likely to be short-lived. The Pathets are likely to resume operations whenever it suits their convenience. The Katay government, on the other hand, continues to follow a conciliatory policy toward the Communists. [ ]

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Cambodia: Last week's cabinet reshuffle in Phnom Penh apparently resulted in the separation of Prince Sihanouk's political movement from the increasingly unpopular government. The king by retaining the premier demonstrated that he is not merely the creature of Prince Sihanouk, but that he is a power in his own right. The upshot of this development may be the granting of considerable freedom in the forthcoming election campaign to the opposition Democratic Party, which is suspected of containing a number of pro-Communist elements. [ ]

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Indonesian Crisis: The withdrawal of pro-Communist defense minister Iwa from the Indonesian cabinet is a definite victory for the army in the army-cabinet crisis which developed on 27 June over the appointment of a new chief of staff. This action does not settle the cabinet's political problems, and Prime Minister Ali, who has taken over the Defense portfolio, may be unable to avoid a cabinet collapse. Genuine efforts will be made by all political groups except the Communists to hold national elections as scheduled on 29 September. [ ]

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Sikh Agitation for Linguistic State in North India: Increased agitation by Akali Sikhs for a separate Sikh state in northern India has resulted in over 6,000 arrests and the closing of four Akali newspapers. The New Delhi government has had trouble with the linguistic problem ever since it permitted the establishment of Andhra in the fall of 1953 and therefore may be expected to be cool to the idea of creating additional linguistic states. The continuing disturbances remain a source of considerable embarrassment to the government. [ ]

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Pakistan Constituent Assembly: With the confirmation of M. A. Gurmani as permanent president of the Pakistani Constituent Assembly, it became clear that Governor General Ghulam Mohammad and his advisers had decided to end Prime Minister Mohammad Ali's political influence as leader of the Moslem League. His resignation from the premiership is, therefore, likely in the near future. [redacted] . . . . . Page 10

The Afghan-Pakistani Dispute: Statements by the Afghan King made in his interview with the Pakistani ambassador on 12 July indicate that he may meet Pakistan part way in settling the dispute over the 30 March riots in Kabul by curbing Prime Minister Daud and softening the tone of Pushtoonistan propaganda. The king said, however that Afghanistan is not prepared to abandon completely its Pushtoonistan propaganda as one of the terms of settlement. [redacted] . Page 11



French North Africa: Anti-French activities are still widespread in Morocco and Algeria. A disagreement has arisen between the bey of Tunis and nationalist leader Bourghiba concerning the future Tunisian constitution. [redacted] . . . . . Page 13

Czech and Hungarian Parties Tighten Agricultural Discipline: Party resolutions calling for a considerably stiffened agricultural discipline were passed in recent weeks by the central committees of the Hungarian and the Czechoslovakian Communist parties. The new policies emphasize the necessity for an accelerated collectivization program and for increased, and by implication stricter, party control in rural areas. [redacted] . . . . Page 14



Argentine Political Situation Still Unsettled: Political tension continues in Argentina, despite government efforts to re-establish "normal conditions" and to make peace with the opposition. [redacted] . . Page 16

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**PART III**

**PATTERNS AND PERSPECTIVES**

**SOVIET ECONOMIC STRENGTHS AND WEAKNESSES . . . . . Page 1**

The Soviet economic position continues essentially strong, although there are long-standing serious shortcomings in agriculture and labor productivity. There appears to be no economic necessity for major political concessions in the immediate future. The prospect of spiraling expenditures for military re-equipment, however, may have spurred efforts to achieve a relaxation of tension. [REDACTED]

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**THE 1955 SATELLITE BUDGETS . . . . . Page 3**

An examination of Eastern European Satellite budgets for 1955 suggests that there has been no major revision of the economic policy adopted in mid-1953. Agriculture and consumers' goods industries continue to receive larger funds than in the previous two years, despite the new propaganda line stressing the primacy of heavy industry. Military appropriations, after a decline in 1954, have risen in most countries, but are still below the 1953 level in Bulgaria, Rumania, and Hungary. [REDACTED]

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**PROSPECTS FOR CONSTITUTIONAL GOVERNMENT IN GUATEMALA. . . . Page 7**

The new Guatemalan constitution, a preliminary draft of which was released early in July, may be promulgated in time to permit campaigning and elections for a congress to be installed in March 1956. The re-establishment of constitutional government will raise a host of new political problems for the Castillo administration, which is already harassed by critical short-term economic difficulties and by factionalism among those on whom it must depend for political support. Chief among these problems will be organizing effective political support for the administration, supervising congressional elections, and having to cope with a possibly intractable congress. A resurgence of strong nationalism, in part hostile to the United States, is also expected. [REDACTED]

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**PART I**

**OF IMMEDIATE INTEREST**

**SUMMIT CONFERENCE DEVELOPMENTS**

**Western European Views**

Representatives of the major Western European powers describe themselves as under strong public pressure to explore thoroughly at Geneva and afterwards any avenue which might lead to an East-West understanding.

The British, French, and West German governments hope for concrete achievements at Geneva and are showing increasing signs of a willingness to make specific concessions to the USSR during meetings which may follow.

Representatives of all three nations insist that public opinion requires that their governments devise a constructive European security plan. The British hold that the creation of a demilitarized strip in central Europe should be proposed to the Soviet Union. The French, however, are primarily interested in suggesting an arms limitation pact between the Warsaw treaty powers and Western European Union members.

The West Germans support the French idea, and envisage it as a first step toward general disarmament. They also see it as leading to the eventual demilitarization of a part of Europe as suggested by the British.

British, French, and West German officials now hold that although the Eden plan remains the basis of the Western position on German reunification, the Western Big Three should tie the Eden plan to a positive

proposal on European security plans to be advanced at the chiefs-of-government meetings.

The Big Three representatives have agreed to reject the Soviet proposal for a world conference on international trade. They hold that the question of strategic controls is not one to be negotiated with the USSR. In response to strong public pressures for more East-West trade, however, the Big Three delegates agreed that should a detente based on substantial Soviet concessions come about, the West could yield on this issue, even to the point of accepting some "risks."

Sensitivity by French, German and British officials to public opinion is at least partly justified by public opinion polls in the major Western European countries in mid-June. Although expectations of beneficial results from the four-power meetings were somewhat restrained, an overwhelming number of those interviewed held that even if there were no "solutions," the meetings would be successful if they "reduced tension."

There has been a sharp rise since February 1955 in the number of people who believe that the Soviet Union has recently become more conciliatory, and that it has become more conciliatory than the United States. The

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willingness on the part of the governments to hold firm to the positions of strength gained thus far by the pursuit of firm policies toward the Communists may also be somewhat tempered by the fact that there has been a continuing rise in Western European public opinion in favor of adopting a neutral position between the United States and the Soviet Union. [ ]

**Soviet Indications**

On the eve of the summit conference the Soviet Union turned its attention to Germany, but in so doing indicated that it still hoped to avoid the unification and free election issues at Geneva.

The TASS statement issued on 12 July proposed a step-by-step solution of the German problem, with a European security system as the starting point. This reflects a Soviet assumption that quick agreement on unification is impossible.

TASS gave no clue as to what new proposals might be made on European security, but it added to the evidence that the USSR would give high priority at Geneva to a security plan which would probably go considerably further than the Molotov plan of February 1954.

The TASS statement was clearly defensive in tone, and was avowedly an attempt to counter the effect of Western charges that the USSR has lost interest in German unification. It appears likely that the Soviet delegation

at Geneva will point to this unconvincing testament of belief in German unification in order to avoid detailed discussion of the problem of unification and free elections. The TASS statement sought to prove that free elections are not the main issue to be settled, that the real bottleneck is the inclusion of West Germany in NATO and WEU, and that agreement on European security is necessary to remove this obstacle to unification.

A possible suggestion at Geneva that the two German states start talks on the detailed problems of unification was foreshadowed by the TASS statement that a prerequisite to German unity is a rapprochement between the East and West German governments.

Moscow's recent sensitivity to any notion that it would be bargaining from weakness was reflected in the vigorous TASS denial that the USSR feared a united Germany, and the reminder that a far weaker Soviet Union had defeated Hitler's Germany. TASS asserted that Soviet opposition to a remilitarized Germany was based not on fear, but on the danger to the whole world of another war. TASS described the effects of a modern war more forthrightly than usual, however, stating that "not a single country taking part in the war could escape having enormous destruction and victims."

Despite rumors to the contrary, the Soviet delegation to Geneva is not expected to offer a revision of the Oder-Neisse line. Poland and East Germany staged a joint celebration of unprecedented magnitude on the fifth anniversary of their

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agreement underwriting the frontier. Both East German and Polish speakers noted that the Warsaw pact now constitutes a guarantee of that frontier. This demonstration, obviously inspired by Moscow and reported in the Soviet press, was clearly intended to persuade the West that this is a closed issue.

Premier Bulganin, at an Argentine embassy reception in Moscow on 9 July, said that he and his associates "liked very much" President Eisenhower's press conference statements on 6 July, and that under these circumstances Khrushchev considered that his attendance at the 4 July reception had been the "first session of the Geneva conference." Soviet propaganda has also credited the West with a more hopeful attitude toward the summit conference, and has particularly welcomed President Eisenhower's statement denying that the USSR approached the meeting from a position of weakness.

**Soviet Delegation**

The presence of Khrushchev, Bulganin and Molotov at Geneva will enable the Soviet delegation to make "on the spot" decisions, thus facilitating the work of the conference. Aiding these leaders on the delegation with technical advice will be Defense Minister Zhukov and

**First Deputy Foreign Minister Gromyko.**

Foreign Ministry experts serving as advisers to the delegation include the ambassadors to Britain (Yakov Malik), France (Sergei Vinogradov), the United States (Georgi Zarubin) and East Germany (Georgi Pushkin). Also included is Vladimir Semyonov, deputy foreign minister and, like Pushkin, a German and central European specialist.

The inclusion of Semyonov and Pushkin indicates the importance the USSR attaches to a discussion of European issues, but in view of other evidence probably does not signify that German unification proposals will be made at Geneva.

Among the advisers so far not named will probably be an expert on Far Eastern affairs, possibly Deputy Foreign Minister N.T. Fedorenko, and an atomic energy expert.

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## PART II

NOTES AND COMMENTSNew Soviet Appointments  
Strengthen Khrushchev's Position

The plenum of the Soviet Communist Party central committee held between 4 and 12 July has filled some long-vacant positions at the highest levels of Soviet power.

The committee announced that A. I. Kirichenko, party boss of the Ukraine, and M. A. Suslov, long-time member of the party secretariat, have been promoted to full membership in the party presidium. Both Kirichenko and Suslov have been associated with First Secretary Khrushchev for many years.

Suslov, believed to have been in the past a specialist in Soviet-Satellite affairs, may relinquish his post on the secretariat, but Kirichenko will probably retain his position as first secretary of the Ukrainian party organization.

The party plenum also announced three additions to the secretariat of the central committee. One of these, D. T. Shepilov, Pravda's editor, accompanied the Soviet delegations both to Peiping and Belgrade and is considered particularly qualified in the field of Marxist theory. The other two, A. B. Aristov and N. I. Belyayev, have been advanced from positions as first secretaries in the Khabarovsk and Altai Krai, respectively, where they were probably leading exponents of Khrushchev's agricultural policy.

The new appointments to the presidium and secretariat probably mark a significant strengthening of Khrushchev's position and suggest that he

will make a bid for more complete consolidation of his power at the 20th Party Congress, scheduled to convene on 14 February 1956.

There has also been recent information on two other prominent Soviet personalities--N. N. Shatalin and P. K. Ponomarenko.

Shatalin, who has not appeared publicly with other members of the presidium and secretariat since 21 February, has now been identified as first secretary of the Primorye Krai, a remote and relatively unimportant province in the Soviet Far East. He was appointed to the post in March 1955.

In his former capacity as secretary of the all-Union Communist Party, Shatalin held a key position in the area of personnel appointments and was regarded as a protégé of G. M. Malenkov. His demotion and present assignment seem clearly designed to neutralize any power or influence he may have had.

P. K. Ponomarenko, whose appointment as ambassador to Poland on 7 May raised the question of his continued retention as a candidate member of the party presidium, has been identified as still a member of that body. He was mentioned in the Soviet press as attending the air show celebration in Moscow on 3 July along with the other members of the presidium and occupied his accustomed slot in the official listing of those present.

Ponomarenko was elected a full member of the party

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presidium at the 19th Party Congress in October 1952 but was down-graded to candidate status at the time of the consolidation following Stalin's death. Immediately before being assigned to his present post, he served as party first secretary in Kazakhstan, a

center of Khrushchev's "new lands" program.

The indication that Ponomarenko was passed over for promotion at the recent plenum, coupled with his seemingly less important post in Warsaw, suggests some failure on his part while he was the party boss in Kazakhstan. [REDACTED]

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USSR Exhibits High Achievement  
In Nuclear Research

[REDACTED]  
[REDACTED] the Soviet press shows that the USSR presently possesses one high-energy electron synchrotron and three or four high-energy proton synchro-cyclotrons. Among the latter is a 670-million-electron-volt (MEV) unit, the world's largest proton accelerator of this type.

High-energy particle accelerators are necessary in the controlled study of nuclear forces. Possession of these machines by the USSR indicates a high technical capability in this field and places the Soviet Union among the leading countries of the world in development of facilities for high-energy nuclear physics research.

Twelve articles have appeared in Soviet technical journals concerning experiments performed with the 670-MEV unit. American scientists have

evaluated these papers and conclude that the work is of high technical caliber, in some cases surpassing similar work performed in the United States and in other cases dealing with entirely new data.

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The recent appearance of articles on high-energy nuclear physics demonstrates the high regard the USSR has for fundamental research and reveals strong capabilities in this field. [REDACTED] (Prepared by OSI)

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Large Soviet Military Loan  
To China Disclosed

Communist China has been receiving large quantities of military materiel from the Soviet Union under a loan arrangement, according to the 1955 budg-

et report released by Peiping this month. The report did not disclose the value of the 1955 military loan, but indicated that more than \$200,000,000

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worth of Soviet military equipment may have been financed by a loan in 1954. These are the first announced Soviet military loans to China.

Peiping cited a 1955 military loan as the chief reason for the planned rise in the size of the "credits, loans, and insurance" category of revenues in the 1955 budget. The loan, described as "enormous assistance," is to be used to finance the delivery of "much military materiel." The budget report described these deliveries, together with the equipment received free when the USSR withdrew from Port Arthur, as "enormous assistance."

The budget report indicated that the value of Soviet military deliveries to China under loans in 1954 may have exceeded \$200,000,000. This figure is derived from a statement that in 1954 Soviet loans accounted "mainly" for a \$600,000,000 excess in revenues from the credits,

loans, and insurance category achieved over the budgeted 1954 figure. As deliveries of industrial goods on long-term credit had a value of less than \$100,000,000, and if "mainly" means at least half, other loans--presumably for military deliveries--apparently totaled more than \$200,000,000.

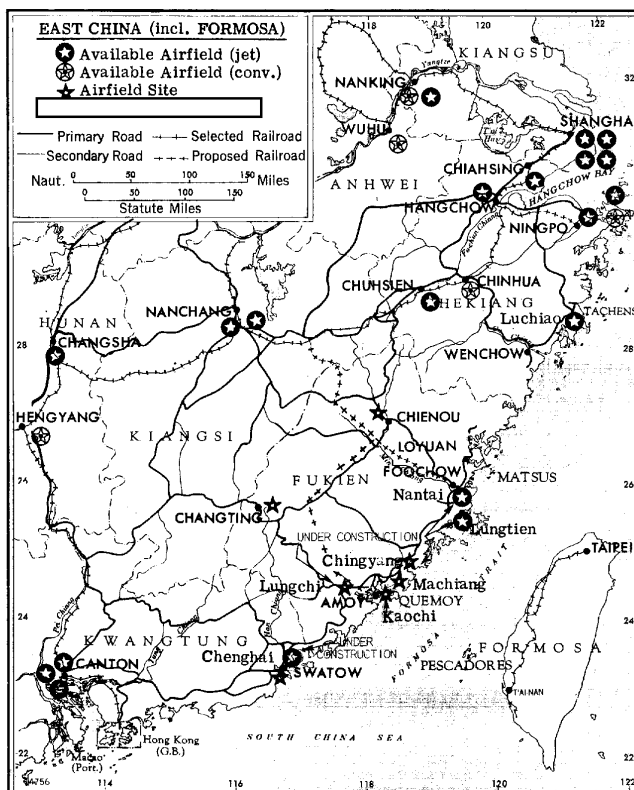
This equipment received on credit would have been in addition to the \$150,000,000 worth of equipment that China is believed to have purchased from the USSR in 1954 under the usual barter trading account. Thus the total value of military goods China received from the USSR last year was apparently at least \$350,000,000. This nearly equals the value of non-military imports from the USSR in 1954 and is equivalent to 15 percent of China's 1954 military budget.

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### The Formosa Straits-- Military and Political

The military situation in the Formosa Straits remained quiet last week. Chinese Communist naval activity in the coastal area near the Matsus was slightly above normal, however, and the possibility of some increase of naval strength in the Foochow area was indicated

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The two Soviet destroyers and four submarines seen en route to China on 26 June have now been reported in Tsingtao harbor, and one of the submarines was observed to be flying Chinese Communist colors. Addition of these ships to the Chinese Communist navy would increase its destroyer strength to four and its submarine strength to at least 11.

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Peiping's Campaign Against Counterrevolutionaries

Peiping's recent accounts of arrests for espionage, counterrevolutionary activity, and assorted crimes do not seem to indicate that the regime is faced with an immediate threat. The propaganda of recent months suggests that the regime hopes to induce the Chinese people to work harder, be less critical of party policies, and ask less for their pains.

The increased public attention to this hostile and criminal activity parallels the regime's campaign to force the Chinese intelligentsia into enthusiastic subservience to the party line. A recent People's Daily editorial compared the Hu Feng affair among the intelligentsia with counterrevolutionary activity among the peasantry.

This pressure on the peasant is best seen in public trials--many of them employing

terroristic tactics reminiscent of 1952--which have been held in nearly every province of China. In Shanghai, special bulletin boards have been erected to keep box scores on convicted counterrevolutionaries.

The propaganda accompanying these trials has urged cadres to "pick typical cases and criminals" and conduct "all-out punishment" to demonstrate the "policy and determination" of the regime. Peiping has credited the "weapon of judicial trial" with raising the farmers' "enthusiasm" for selling more grain to the state and with "ensuring the healthy development" of the mutual-aid and co-operative movement.

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**Vietnam**

The Sino-Soviet bloc is using Ho Chi Minh's trip to Peiping and Moscow to demonstrate Communist solidarity and to underscore the importance attached to the Viet Minh objective of gaining control over all Vietnam. In South Vietnam, Premier Diem, faced with growing opposition from the Cao Dai sect, remains opposed to all-Vietnam elections under the Geneva agreement and is expected to say so publicly in the next few days.



The Sino-Viet Minh communiqué signed in Peiping on the eve of Ho's departure for Moscow included a Chinese Communist promise to aid North Vietnam to the extent of some \$326,000,000. The stated objective of this aid is the rapid restoration of North Vietnam's economy, which will mean the improvement of the Viet Minh's prospects in any all-Vietnam elections.

The communiqué stressed the importance of strict implementation of the Geneva agreement, and specifically mentioned the provision that pre-election talks between north and south should commence on 20 July. Peiping's propaganda has since stated that the holding of Vietnamese elections is just as important to the Communists as the "liberation" of Formosa.

Ho is presently being received by top Soviet leaders in Moscow. It is more than likely that a Soviet-Viet Minh communiqué reiterating the Communist line on Indochina and announcing a Soviet aid program to the Viet Minh will be issued, either before or during the summit conference. There is a strong possibility that the USSR will raise the Indochina problem at Geneva in the belief that pressure can be brought to bear on the United States through the British and the French.

In South Vietnam, Premier Diem has still made no commitment with regard to pre-election talks with the Viet Minh. In fact, he has informed the British that any statement favoring consultation at this time is impossible because it would "alarm and demoralize" the Vietnamese people.

Diem is expected to make a statement regarding elections before the summit conference

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gets under way. It appears he will come out in favor of unification of Vietnam through democratic elections, possibly under United Nations supervision, but under no circumstances in accordance with the Geneva agreements.

Meanwhile, a new political crisis is developing as a result of the growing estrangement of Diem and the Cao Dai sect. Cao Dai leaders who heretofore have supported Diem are increasingly concerned that the premier's growing political

and military strength is a serious threat to them.

The breach between pro- and anti-Diem factions in the Revolutionary Committee was publicly declared on 7 July in a radio broadcast by the Cao Dai elements on the committee. They severely criticized Diem and unilaterally announced a reorganization of the committee. Previously, certain Cao Dai leaders had hinted at an intention to resort to violence if Diem attempted to undermine their position.

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**France Hastens to Cut Responsibilities in Indochina**

France is speeding liquidation of all its interests in Vietnam and apparently is also preparing to renounce all military and political responsibilities in the area. Paris will probably disclaim any special responsibility for consulting with the Viet Minh on all-Vietnamese elections and may attempt to make all nine powers which participated in Geneva declaration--including the United States--share direct responsibility for fulfillment of the agreement.

Just after Chief of Staff General Guillaume finished an inspection of French military establishments in Vietnam in late June, he insisted to Ambassador Reinhardt that France would under no circumstances become engaged again in ground combat in Indochina. He further stated that France would accept no military policy which involved a large measure of risk.

The French desire to reduce commitments is also evident

in the frequent statements by French officials that no problem is envisaged in negotiations to give the Vietnamese full military responsibility in South Vietnam. This attitude was illustrated forcefully in the course of the skirmishes in northern Laos of the past two weeks when French officials in Indochina declined to provide air transport requested by Laos to bring in reinforcements.

The phasing-out of the French Expeditionary Corps is already 50 percent ahead of schedule. General Guillaume told Ambassador Reinhardt last month that only 55,000 French troops remained in Indochina.

Although Guillaume indicated a preference for keeping 50,000 troops there until the end of 1956, an official spokesman in Paris implied on 6 July that the government is thinking of reducing the corps to 20,000. All indications point to the early withdrawal of even this force, however, in the

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event of serious trouble in North Africa. The French estimate that complete withdrawal, with military equipment, would take about six months.

Disillusionment over the chances of maintaining an economic stake in Vietnam is a strong factor in the stepped-up withdrawal from Indochina. The only French firm now operating in Viet Minh territory is the Renault auto agency servicing International Control Commission vehicles.

In South Vietnam, negotiations are now under way to sell the Bank of Indochina building in Saigon to the Vietnamese government, whose new commercial bank will take over a majority of the Bank of Indochina's deposits. French officials also expect the early liquidation of firms whose business depended heavily on the presence of the expeditionary corps.

A special representative of the Associated States Secretariat is reported to have arrived in Saigon on 14 June to study the rapid repatriation of French citizens, and the Faure government is studying reimbursing those repatriates who leave piasters in Vietnam. On 6 July the French National Assembly's special commission on Indochina

voted to send a mission to look into "the conditions of French citizens residing in the three Associated States."

If the parliamentary committee recommends accelerating the evacuation of French citizens, the National Assembly will probably push for a complete military withdrawal also. The French government is unlikely to allow prestige factors to hinder the withdrawal from Indochina under present conditions.

France's worries over its renewed involvement in hostilities are accentuated by the imminence of the 20 July "deadline" for beginning consultations on all-Vietnamese elections. Paris is preparing to deny any special responsibility if the Diem government persists in refusing to acknowledge such obligations under the 1954 Geneva agreement.

France is virtually certain to maintain that the responsibility for pre-election consultations is shared by all nine powers which participated in the Geneva declaration, including the United States and South Vietnam, even though these two nations did not sign the agreement. In any event, France will not undertake consultations with the Viet Minh to arrange for elections.

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**Laos**

The cease-fire which followed the Pathet Lao reconnaissance in force at Muong Peun is likely to be short-lived. The Pathets are likely to resume operations whenever it suits their convenience. The cease-fire, however, prevents any exploitation of this situation by the Laotian army. Moreover, both sides have agreed

to suspend patrol activities and refrain from bringing up reinforcements.

Under the circumstances, checks on government compliance with the cease-fire are a simple matter, whereas they are practically impossible as far as the Pathet Lao is concerned.

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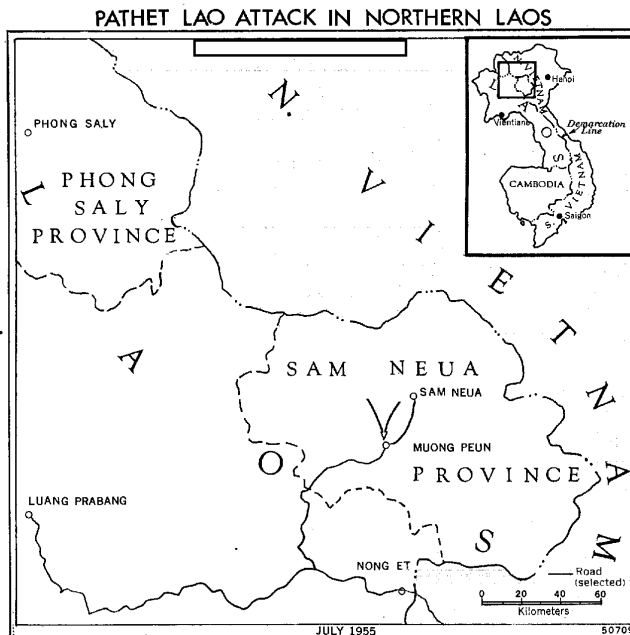
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While the fighting was in progress, the Katay government issued a strongly worded denunciation of the Pathet Lao and accused the Viet Minh of aiding the aggressors. The premier announced that the government would not pursue its policy of "appeasement and conciliation," and political negotiations with the Pathet Lao were suspended. In accepting the cease-fire agreement, however, the Laotian government has demonstrated that there has not, in fact, been any change in its policy of vacillation. This irresolution has permitted the Pathet Lao gradually to increase its military capabilities and thus diminish the prospects of the government regaining control over the disputed provinces.

The Pathets, on the other hand, are in a position to exert



military pressure on the isolated pockets of government troops at any time it suits their political and military convenience, the cease-fire agreement notwithstanding.

Cambodia

Last week's cabinet reshuffle resulted apparently in a divorce of Prince Sihanouk's political movement, the SRN, from the inept and increasingly unpopular government.

The decision of the king to keep Prime Minister Leng Ngeth in office and the fact that five ministers defied an ultimatum that they resign from the cabinet or be expelled from the SRN indicate that Sihanouk, while still the most important individual in Cambodia, does not always enjoy supreme power.

The independent action of the king in maintaining the

prime minister in office and his refusal to accept the resignation of two ministers reveal that he is not merely the creature of Prince Sihanouk, and may imply some difference of views between the court and the prince.

Some observers feel that relations between Sihanouk and Leng Ngeth will deteriorate, and that the latter may be more inclined to give electoral freedom during the forthcoming political campaign to the opposition Democratic Party, which is suspected of containing a number of pro-Communist elements in its ranks.

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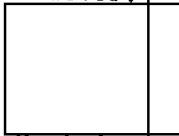
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Indonesian Crisis

The withdrawal of pro-Communist defense minister Iwa from the Indonesian cabinet is a definite victory for the army in the army-cabinet crisis which developed on 27 June over the appointment of a new chief of staff.

The withdrawal of Iwa had presumably been urged by Vice President Hatta, who is reported to be in sympathy with anti-Communist army elements. In return for this concession, the army probably will be asked to drop its demand for the dismissal of General Utoyo, the new chief of staff.

A cabinet collapse continues to be a possibility, however,



Parindra, a minor government party, is considering withdrawing from the coalition because of the cabinet's handling of the army crisis. Without Parindra the cabinet would lose

its non-Communist majority in parliament and might feel forced to resign.

If the army crisis can be settled on the basis of dropping Iwa, however, Prime Minister Ali, who has taken over the Defense portfolio, may be able to hold the cabinet together until the national elections scheduled for 29 September. The secretary general of the Indonesian Communist Party has reiterated his party's policy of supporting the Ali cabinet.

No official statement on elections has appeared since the army crisis began on 27 June. There appears to be a general awareness, however, that only the Communist bloc would now benefit from a postponement, and it is believed that genuine efforts will be made to hold elections as scheduled. Both the army and the political opposition want them held on time, and the secretary general of the Masjumi, the principal opposition party, has stated that elections would not be delayed by a change in government.

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Sikh Agitation for Linguistic State in North India

Akali Sikhs in northern India have increased their agitation for a separate Sikh state in the Punjab area since disturbances broke out on 10 May under the leadership of Tara Singh.

A police raid on Akali offices in Amritsar on 5 July precipitated mob retaliation, with injuries to a score of police, and caused some 2,000 students in the city to go on strike. Akali Sikhs observed

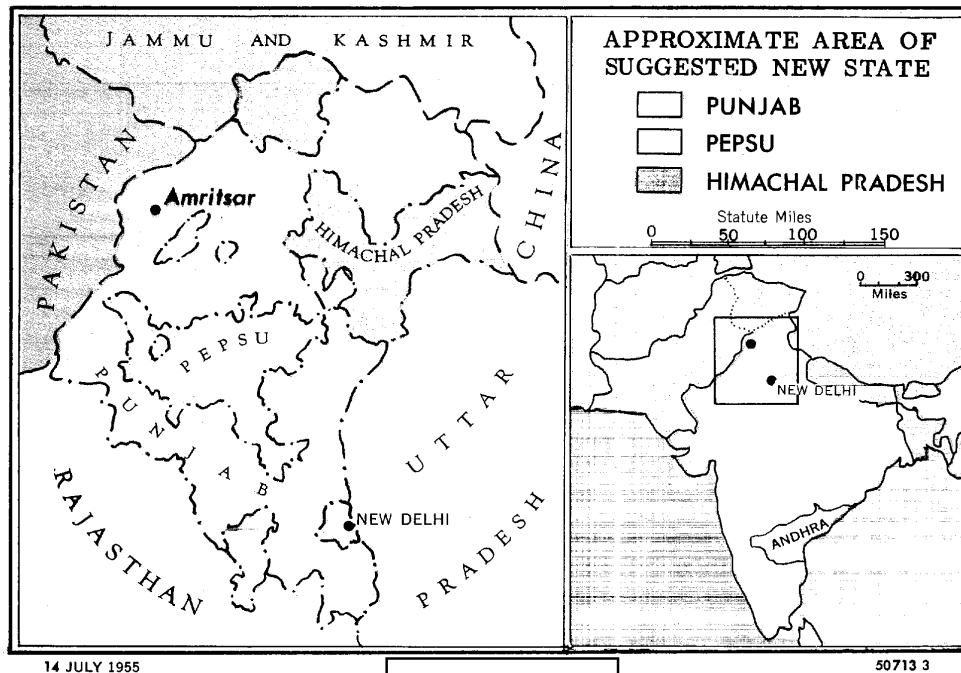
a "protest day" on 10 July, holding public meetings all over East Punjab and Pepsu states in condemnation of the police action.

The demonstrations have apparently evoked some support from non-Akali groups, including the Communists and even some moderate Sikhs. In the last two months the Indian government has been forced to use vigorous countermeasures, closing four Akali newspapers and arresting

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over 6,000 persons. Continued crowding of the jails while the issue remains unresolved may force New Delhi to change its tactics from mass to "selective" arrests.

The Indian government is determined and able to maintain order in the Punjab, but the continuing agitation by the Sikhs remains a source of

considerable embarrassment. Having accepted the principle of linguistic states when it permitted the establishment of Andhra in the fall of 1953, the government has had trouble with the linguistic problem since. New Delhi may therefore be expected to be very cool toward the idea of creating additional linguistic states at this time.

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**Pakistan Constituent Assembly**

Indications of probable future political groupings in the Pakistani Constituent Assembly are beginning to emerge.

With the confirmation of M. A. Gurmani as permanent president of the assembly, which convened on 7 July, it became

clear that Governor General Ghulam Mohammad and his close advisers had decided to end Prime Minister Mohammad Ali's political influence as leader of the Moslem League and to make Gurmani chief of the league delegation.

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Passage of the government's bill establishing the procedure for the election of the eight West Pakistani state and tribal delegates not previously elected on 21 June probably means that the governor general will control these eight votes. These, in addition to three non-Moslems made associate members of the Moslem League, one independent from Baluchistan who will probably back the government, and the Awami League members who follow Law Minister Suhrawardy, may give the governor general the 41 votes he needs to control the assembly.

It is still not clear, however, how many of the 12 Awami League assembly members are loyal to Suhrawardy and how many will follow Suhrawardy's rival, Bashani, who is opposed to the governor general.

Fazlul Huq's 16-man United Front delegation is not having marked success in strengthening its position in the assembly. From the tally of at least one vote during the first week of the assembly's session, it appears that some of the previously uncommitted East Pakistani members have abstained or sided with the government. [REDACTED]

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25X1The Afghan-Pakistani Dispute

Statements the Afghan king made in his interview with the Pakistani ambassador on 12 July indicate that he may meet Pakistan part way in settling the dispute over the 30 March riots in Kabul by curbing Prime Minister Daud and softening the tone of Pushtoonistan propaganda. The king said, however, that Afghanistan is not prepared to abandon completely its Pushtoonistan propaganda as one of the terms of settlement.

The king stated that his government was willing to make amends for the riots. Nevertheless, the government could not abandon its interest in the fate and well-being of "Pushtoon brethren" in Pakistan and would continue to advocate their independence. He said, however, that Afghan propaganda would be dignified and would not incite to violence and hatred.

The majority of the royal family probably agrees with the king on these points. The

king also stressed that he is a constitutional monarch and therefore unable to take direct action in the dispute. On the other hand, he said he would talk to Daud, and he requested the Pakistani ambassador to confer soon with Foreign Minister Naim.

These remarks suggest that the king is not prepared to dismiss Daud despite previously reported efforts of Daud's uncles, Shah Mahmud Khan and Shah Wali Khan, to oust the prime minister.

Daud has probably been somewhat shaken by the failure of such tactics as mediation and military mobilization. Since he now has no alternative but to behave moderately or place Afghanistan at the mercy of the Soviet Union, he will probably be more cautious in his future actions.

In this connection, neither Daud nor any other member of the Afghan ruling group has ever shown any personal sympathy

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toward Communism or the USSR. All indications are that Daud was motivated in seeking closer economic ties with Moscow by his feeling that immediate improvement of Afghanistan's critical domestic economic situation could be accomplished most economically in the northern part of the country by a series of agreements with the USSR.

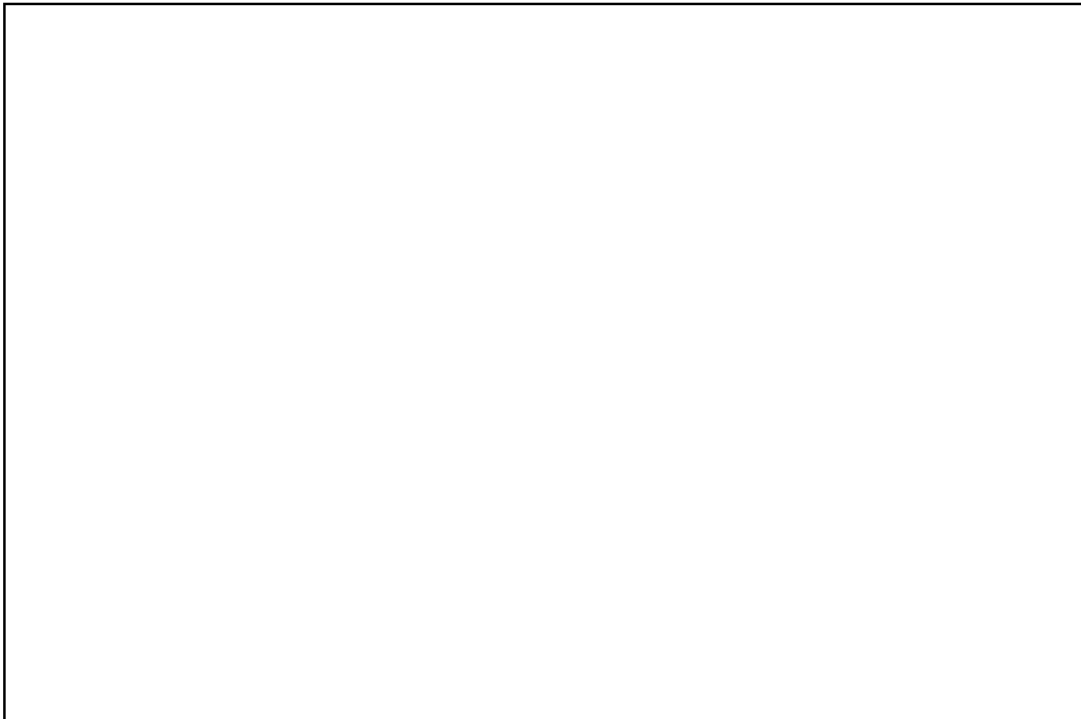
Most important members of the Afghan government, including Daud, have long pressed the United States for economic and military aid and have indicated an interest in eventually participating in "northern tier" defense. Contrariwise, the Afghans seem to have taken little initiative in their relations with the Soviet Union and to have played primarily a passive role in accepting Soviet offers.

In Pakistan, there will probably be considerable opinion in favor of continuing the economic blockade and trying to force complete Afghan surrender. However, Pakistani foreign secretary Baig told an American embassy officer on 30 June that he saw no objection if the Afghans continued their Pushtoonistan propaganda in a "civilized manner," and other elements in Pakistan may agree with him.

The way therefore seems open for continued diplomatic activity aimed at Afghan agreement to minimize its anti-Pakistani propaganda in return for the reopening of Pakistani consulates in Afghanistan. Though this solution would not be entirely satisfactory to Pakistan, it seems unlikely at the moment that Karachi can hope for anything better.

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**French North Africa**

Anti-French activities are still widespread in Morocco and Algeria. In Tunisia, disagreement is reported between the bey and nationalist leader Bourghiba over the future constitution.

Gilbert Grandval, the new French resident general in Morocco, arrived on 7 July. Although he was enthusiastically received in the native quarter of Casablanca during a visit on 8 and 9 July, there was no letup in terrorist activity. Four persons were killed and six wounded in 14 attacks during the two days.

True to his reputation as a man of action, Grandval quickly "cleaned house" by ousting eight of the 12 top French officials in the residency, most of whom were old-time Morocco hands, and released some 30 political prisoners. These acts, together with the continued police investigation of French settler

counterterrorist activities, will increase the strong antagonism of the settlers toward the resident general. Until after the eight vacancies are filled, Grandval's long-range plans for Morocco are unclear.

Imposition of a sunset-to-dawn curfew in eastern Morocco on 11 July was probably an attempt to forestall the creation of armed bands as well as to prevent the movement of dissidents across the Algerian and Spanish zone borders.

A delegation of Algerian Moslem deputies to the French National Assembly arrived in Paris on 6 July to warn Premier Faure that the situation in Algeria continues to deteriorate and that an extensive underground may develop to replace the small bands of rebels. Meanwhile, the French army is continuing its antirebel operations and the police have arrested numerous suspected saboteurs.

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A dispute over the future Tunisian constitution has allegedly arisen between the bey and Habib Bourghiba, president of the foremost nationalist party, the Neo-Destour. The bey advocates a constitutional monarchy and a two-house consultative body in part indirectly elected and in part appointed by him.

French settlers are said to favor this plan and to have given the bey substantial financial support in order to be able to influence the composition of such a body. While Bourghiba also supports a constitutional monarchy, he favors

a single legislative body elected by direct popular vote.

Pressure on the bey will be increased now that the French National Assembly has overwhelmingly--540 to 43--approved the agreements granting limited home-rule to Tunisia and early approval by the Council of the Republic seems likely. French settler opponents of the agreements will probably try to persuade the bey not to ratify them by playing on his distrust of Bourghiba. It is not anticipated, however, that the bey, whose dispute with Bourghiba may be resolved by compromise, could long delay ratification.

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Czech and Hungarian Parties Tighten Agricultural Discipline

Resolutions developing a considerably harsher party line on agriculture were passed in recent weeks by the central committees of both the Hungarian and the Czechoslovak Communist parties. The resolutions spell out a new policy of accelerated collectivization and stress the need for more party control in rural areas.

The new plans do not posit a wholesale abandonment of previous incentive policies and "persuasion" campaigns to increase agricultural production, but the independent peasant has been clearly warned that he no longer has the freedom permitted in 1953 and 1954.

In Hungary, for example, the party now calls for more than half of all acreage to be socialized by 1960. The regimes will probably have to

resort to force to achieve their goals, and the expropriation of private lands for collectives may be reintroduced.

The new Hungarian policy will probably feature a decrease in emphasis on the program of agricultural economic incentives which was unsuccessfully tried during the past two years. Strong measures are already being taken to enforce peasant fulfillment of the compulsory crop delivery plan and to prevent a further weakening of the collective sector.

Similar measures are expected in Czechoslovakia. Party secretary Novotny has stated that an end must be put to "the opportunistic theory of automatic and spontaneous progress in the establishment of agricultural co-operatives and to the underestimating of the class struggle in the villages." Stress is placed on the role of party members in ensuring the

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success of the new program to raise the number and size of co-operatives, increase vigilance against "subversive activities of the kulaks," and expand agricultural production.

Allegedly, one of the main reasons for the introduction of a harsher collectivization program in Czechoslovakia at this time is the need for effective measures to enable Czechoslovakia to enter the scheduled Second Five-Year Plan in 1956 with some hope of fulfilling its ambitious goal. Novotny has announced that the directives of the new Five-Year Plan, which provides for "absolute predominance of the Socialist sector within the farming industry," will be submitted to a national party conference this autumn.

Peasant resistance to the new hardened policy is almost certain to develop, however, and jeopardize the regime's chances of achieving increased agricultural production. As recently as last May, Premier Siroky of Czechoslovakia virtually admitted that a program of forced collectivization would arouse antipathy among farmers and lead to economic difficulties. Party first secretary Rakosi of Hungary made similar statements in March.

The American embassy in Prague views the new decisions as "very significant," possibly reflecting a split in the Czech party. "Left-wing" party viewpoint, possibly represented by Novotny, may have long disagreed with the policy of de-emphasizing collectivization and may have recently gained Soviet support for more coercive techniques.

In the other Satellites, there has as yet been no such return to the pre-new course approach to collectivization and increased party control. The degree of success achieved by the various regimes under the mid-1953 policy of incentives and noncoercion appears to be the main factor in deciding present programs.

Polish party first secretary Bierut recently reiterated the policy of increasing production through financial incentives, and the development of existing co-operatives rather than seeking a significant increase in their number. In Bulgaria, over half the arable land is already socialized and crop shortages are less severe. In Rumania, however, recent party editorials and propaganda suggest that greater stress will be placed on collectivization and less on the peasant incentive program.

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Argentine Political Situation  
Still Unsettled

Political tension continues in Argentina, despite government efforts to re-establish "normal conditions" and make peace with the opposition.

The allegedly "Catholic" demonstration on 9 July and rioting on 10 July appeared to be manifestations of continuing resistance by political opposition elements rather than by church groups, in contrast to the church-led demonstrations prior to the 16 June revolt. The ecclesiastical hierarchy has condemned the attitude of

"those who call themselves Catholic and break the peace."

The march by an estimated 12,000 "Catholics" for two and a half hours in Buenos Aires on 9 July met no resistance from the police, despite the official ban against public demonstrations and despite the anti-Peron character of their slogans. Police felt compelled to quell the 10 July riot, however, which involved only about 3,000 persons but appeared headed toward the president's offices.

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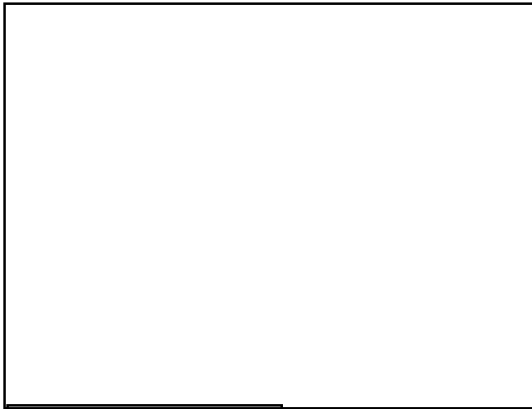
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Opposition groups have issued tentative statements denouncing President Peron's unusually conciliatory overture on 5 July for "coexistence" with his political enemies. Three groups of the splintered Radical Civic Union, the largest opposition party, have declared that political peace is impossible until the government restores various civil rights, such as freedom of speech, press, and assembly.

Both government and opposition forces mistrust the motives of the other. The government's position is that civil rights were restricted gradually because of opposition plotting, and consequently they must be restored gradually. Opposition groups are expected to draw up their official replies to Peron's bid for "coexistence" at party conferences within the next few days.

The army, which is apparently still giving Peron "strong guidance," is probably behind the conciliatory overtures toward the opposition. Though the opposition parties are still denied radio time, the press is now giving wider coverage to their statements, nonviolent demonstrations have

been ignored, and various steps have been taken to de-emphasize and resolve the church-state conflict.



[redacted] a statement by the General Confederation of Labor on 8 July threatening nationwide strikes if further revolutionary action were undertaken.

Meanwhile there have been no further cabinet appointments beyond the four announced on 1 July. The government is still making no evident effort to assert its authority over the major naval base of Puerto Belgrano where most of the navy is reported to be concentrated. [redacted]

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**PART III****PATTERNS AND PERSPECTIVES****SOVIET ECONOMIC STRENGTHS AND WEAKNESSES**

The Soviet economic position continues to be one of strength rather than weakness, although there are long-standing, serious shortcomings in some sectors. The Soviet leadership apparently recognizes that a continued, rapid improvement in economic strength is contingent on the removal of the two major obstacles to Soviet economic growth--a declining rate of increase in labor productivity and a chronically stagnant agricultural sector.

Having made the decision after Stalin's death to embark on the slow and costly process of correcting these problems, the Soviet leaders probably reason that this task would be greatly facilitated and accelerated by a relaxation of international tension. There is nothing in the economic situation, however, which would force them to make major political concessions in the immediate future.

Since the introduction of comprehensive economic planning in 1928, Soviet industrial output has risen almost eight-fold, giving the USSR a gross national product second in size only to that of the United States. At the same time, agricultural output has increased by less than a quarter while population grew by a third, thus reducing the food available for each individual. The economy as a whole has grown two and a half times since 1928 despite the devastating effects of the war. This huge expansion was made possible by a quadrupling of the nonagricultural labor force and at least a sixfold rise in nonagricultural capital.

At the present time, the Soviet gross national product is roughly one third that of the United States. However, Soviet defense outlays, when converted to dollars, are nearly half the size of American outlays and total investment is nearly two thirds that of the United States, while Soviet consumption of goods and services is only one fifth that of the US.

By stressing investment and directing most of it into heavy industry, the USSR has been able to grow rapidly. Although the annual rate of growth has been decelerating in recent years, the current annual rate is approximately 6 percent, nearly double that of the United States. The US economy, however, is still growing more rapidly in absolute magnitude than the Soviet economy.

**Development of Economic Problems**

The Soviet Union has been able to maintain a strong military establishment and simultaneously to expand its economy rapidly because it could readily acquire human and technical resources by transferring millions of workers from agriculture into industry and by absorbing the accumulated technology of the West. These conditions facilitated the rapid growth of the thirties and postwar years. Under such circumstances, the Soviet leadership could afford low priority to worker incentives and requisite consumers' goods production.

Since 1948, the importance of these factors has declined sharply. Labor requirements

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in agriculture have almost precluded the possibility of large-scale personnel transfers. At the same time, additions to the labor force began to decline as youths born in the low-birth-rate collectivization years reached working age. Furthermore, the accumulated technology of the West had been assimilated, and subsequent Soviet technological innovations had to be developed from the slow, costly processes of research.

**Problem of Labor Productivity**

Henceforth the USSR must depend more on productivity and less on labor force increments for its economic expansion. Soviet spokesmen, aware of this trend, have expressed great concern about the lagging rate of increase in labor productivity which is determined by investment (including education), management and incentives. Investment since 1948 as a proportion of Soviet gross national product has been increasing and management is being reorganized in a number of ways. The Soviet leadership, however, must seek a more realistic solution of the incentive issue through additional improvements in living standards.

**Agricultural Output Problem**

If living standards are to be raised, the problem of agricultural stagnation must be faced. The state's ability to increase agricultural output appears to be seriously limited as long as the system of collective farms is retained.

Soviet agricultural production is only about 70 percent of US production in spite of the fact that an estimated 54,000,000 workers (50 percent of the total Soviet labor force) are engaged in agriculture compared to only 8,600,000

(14 percent) in the US. The extremely low Soviet level of labor productivity has resulted in part from the failure of the state to allocate sufficient capital to agriculture and in part from the failure to provide adequate production incentives to the peasants. Their antipathy to the socialized system and resentment to specific deprivations under it have caused trouble repeatedly since the beginning of collectivization.

The system cannot be modified, however, if the desired degree of state control is to be maintained. The income incentives granted to farmers since mid-1953, in the form of higher state agricultural procurement prices, lower compulsory delivery norms, and lower agricultural taxes, are only a small part of the reform necessary to solve the agricultural problem. From the incentive standpoint alone, these measures must be supplemented by increased availability of consumers' goods.

Raising agriculture output by increasing investment will be slow and expensive. Fertilizer and other improvements needed to raise the productivity of traditional agricultural land will be costly. For example, the new corn and livestock program, essential to a better diet, will require more labor and capital per unit of caloric output than the traditional grain culture, which also requires more fertilizer. Adequate amounts of fertilizer can only be made available through greatly expanded and time-consuming investment in mineral fertilizer production facilities.

Expansion of the area under cultivation presents additional problems. The areas of Kazakhstan and Siberia being cultivated under the "new lands"

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program are considered submarginal, with climate and soil conditions making them unsuitable for profitable cultivation. Further, the opening of new land involves a considerable initial expenditure not incurred in older, more developed areas.

**Foreign Trade Problem**

Foreign trade has played a minor role in Soviet economic development, comprising about the same relationship to GNP as in the US. Imports of food could provide a partial solution to the shortages caused by the stagnation of agriculture, but the USSR is not likely to expand food imports to the extent of dependence on the West. In addition, it is not known whether or not the Soviet Union can market a quantity of goods in Western countries to permit an adequate and lasting expansion of trade.

To date, the Satellites have probably not constituted a net drain on Soviet resources and there are indications that their economies are being closely co-ordinated with that of the USSR. Soviet assistance to China has been only a minor burden, comprising only about

one percent of the Soviet gross national product.

**Consequences for Foreign Policy**

The burden of military expenditures since World War II has been higher in the USSR than in the United States. Continuation of the present proportion of military expenditures to gross national product probably would not hamper continuation of the consumer welfare program as enunciated in the 1955 budget. But the potential increase in defense costs necessary to modernize operational units with high-performance aircraft, guided missiles, air defense systems and other new equipment would constitute a substantial burden on the Soviet economy.

Completion of such a program before 1960 would require severe restriction of investment in agriculture and basic industry and would probably lead to some reduction in the rate of growth of the economy.

The Soviet desire to limit defense expenditures to at least their present level may well be a motivation to seek a relaxation of tension.

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**THE 1955 SATELLITE BUDGETS**

An examination of Eastern European Satellite budgets for 1955 suggests that there has been no major revision of the economic policy adopted in mid-1953. Agriculture and consumers' goods industries continue to receive larger funds than in the previous two years, despite the new propaganda line stressing the primacy of heavy industry. Military appropriations, after a

decline in 1954, have risen in most countries, but are still below the 1953 level in Bulgaria, Rumania, and Hungary.

Total budgetary allocations in all of the Satellites except Czechoslovakia and Hungary are larger than in 1954. In Hungary, only about 92 percent of the 1954 allocations were expended, so this year's allocations, if fully spent,

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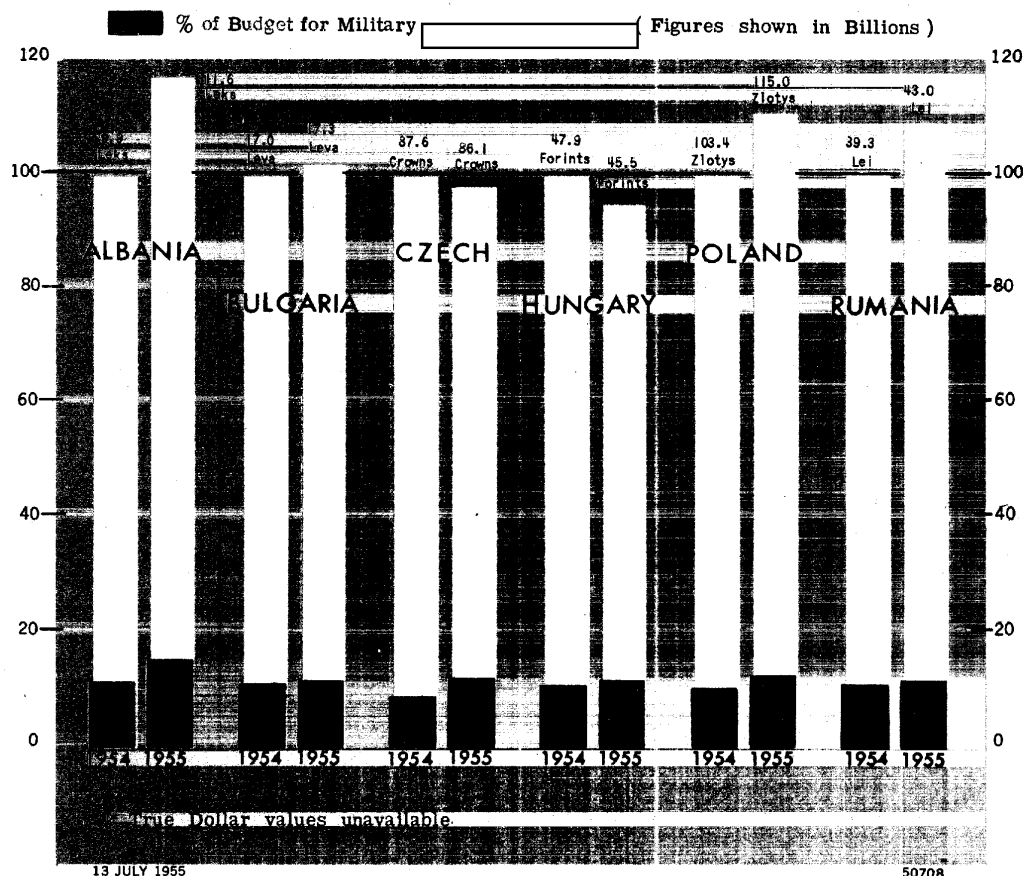
will actually mean an increase over 1954 expenditures. Albania, Bulgaria, and Rumania also state that they spent less than the funds allocated in 1954. Czechoslovakia did not announce the level of 1954 expenditures, but 1955 allocations are only slightly below those of 1954. Unless Czechoslovakia expended virtually the entire allocation last year, its expenditures

sector, however, such increases appear to be slightly smaller than was the case in 1954.

A further indication that the primacy of heavy industry has not extended beyond the propaganda field is the fact that in all the Satellites allocations for social and cultural purposes are to remain stable or increase in 1955

**SATELLITE BUDGETS\***

1954 - 1955 (1954 = 100 Percent)



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this year may be higher than in 1954.

Despite the greater propaganda emphasis on the primacy of heavy industry, there is no evidence of significant rises in funds for investments allocated to this sector. Agriculture and the consumers' goods industries generally continue to receive increased funds. In the consumers' goods

compared to 1954. These allocations probably would be considered the most expendable if a rapid build-up of heavy industrial production were planned.

Hungary, where propaganda has stressed the heavy industrial theme most insistently, has reduced heavy industrial investment allocations approximately 25 percent. The Hungarians,

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realizing that much of their poorly constructed and inadequately maintained plant and equipment needs modernizing, have claimed that a supplementary fund amounting to 50 percent of the total regular investment allocations will be expended for modernization. The American legation in Budapest, however, in its analysis of the Hungarian budget, suggests that this represents only the amount that the regime hopes to expend after hoped-for economies in other parts of the budget have been achieved. The legation considers that savings of this magnitude are unlikely to be attained.

Fragmentary information on the East German budget prevents detailed analysis. The East Germans recently announced a second reduction of their industrial plan goal for 1955, and now call for an increase of only 5.1 percent, half the gain claimed for 1954. Such a reduction indicates that no marked return to the policy of rapidly expanding heavy industry is scheduled.

The East Germans reduced their original 1954 goals in midyear by cutting back consumers' goods production targets, and while the target cut-backs this year may be concentrated in consumers' goods, they probably are not large enough

to permit an increase in the rate of growth of heavy industrial production.

Defense allocations, which in 1954 ranged from a small increase in Czechoslovakia to a 37-percent decline in Rumania, range from an insignificant decrease in Bulgaria to a 33.7-percent increase in Czechoslovakia in 1955. This is the only significant reversal of 1954 budgetary policies noted this year. Despite these increases, Bulgarian, Rumanian, and Hungarian defense allocations this year are still below the level of original 1953 allocations. In the case of Rumania the 2.3-percent increase this year will do little to restore the 1953 level of allocations because of a 37-percent reduction in 1954.

While a definite Satellite-wide pattern is difficult to discern, the defense increases in Czechoslovakia and Poland, countries which have common borders with Germany, are among the largest. Available information on the East German budget is insufficient to determine a trend in defense spending, but other sources indicate that no rapid build-up is planned for East German military forces this year.

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**PROSPECTS FOR CONSTITUTIONAL GOVERNMENT IN GUATEMALA**

The new Guatemalan constitution, a preliminary draft of which was released early in July, may be promulgated in time to permit campaigning and elections for a congress to be installed in March 1956. With the legislative branch of government reconstituted, President Castillo Armas, whose term lasts until March 1960, will lose the dictatorial powers he has held since shortly after the anti-Communist revolution of June 1954.

The Castillo administration, already harassed by critical short-term economic difficulties, by serious labor problems, and by factionalism among those on whom it must depend for political support, will then face a host of new political problems.

Chief among these will be organizing effective political support, supervising congressional elections, and having to cope with a possibly intractable congress. A resurgence of strong nationalism, in part hostile to the United States, is also expected.

**The Constitution**

The constitution, drafted by a committee of the Constituent Assembly elected in October 1954, makes no changes in the traditional form of government. It reinforces guarantees of civil liberties, and specifically prohibits the "organizing and functioning of all entities which support the Communist ideology or any other totalitarian system...."

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Chief among the controversial features of the draft are provisions on church-state relations. These would grant the Catholic Church more freedom than it has had since the anticlerical revolution of 1871, but still do not meet all church demands. Public opinion is divided on the issue, and the majority appears to favor adherence to the country's long anticlerical traditions.

The proposal to continue suffrage for illiterates is another controversial question, while the provision barring government support for political parties would be difficult for any Guatemalan administration to support.

International complications may arise from the draft's declaration that British Honduras is an "integral part" of Guatemalan territory, as well as from the statement that Guatemalan sovereignty extends to the limits of the continental shelf.

Popular Pressures

Manifestations of popular impatience for a return to constitutional government were largely responsible for the unexpectedly rapid completion of the draft constitution.

This pressure had been growing since April and was evident in student demonstrations, in petitions by various professional groups, and in the press. It revealed that most of the politically articulate population is still imbued with the democratic, nationalist aspirations of the popular 1944 revolution which overthrew a repressive dictatorship.

President Castillo, in a speech on 1 June, aligned himself with mounting popular sentiment favoring a return to democratic forms.

Nationalism, still strong and often extreme in Guatemala,

is not confined to any particular economic or social group. It has on occasion in recent months taken a turn hostile to the United States, even among elements which can in no way be considered influenced by Communism. Expressions of anti-US sentiment can be expected to increase with the return of relatively free political activity.

Political Parties

The imminence of the return to normal politics makes it incumbent on the administration quickly to develop effective political support, which it has heretofore lacked. The factionalism and internal rivalries which have long divided the anti-Communist groups pose the greatest obstacle to the formation of a political party to support the administration.

The new Democratic Nationalist Movement (MDN), which emerged as an incipient administration party in mid-June, contains a wide range of opinion in its ranks--from prochurch leaders to staunch anticlericals, from extreme rightists to moderately left labor leaders. One critic has described it as "amorphous, ridiculous, and useless." It does, however, have the advantage of the effective organization of the former anti-Communist university students organization, which joined MDN en masse.

Two other parties--the moderate Social Democrats and the strongly anticlerical Liberals--were organized in June and have declared their support of the Castillo administration. The Liberal Party, which ruled Guatemala from 1871 to 1944, was re-formed under the name National Democratic Association (ANDE) and claims a majority in the 66-man Constituent Assembly.

The MDN, ANDE, and the Social Democratic Party probably represent views held by

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the majority of the politically active population. The considerable divergence of opinions among them, however, will probably force the administration to depend on a loose unstable coalition of parties rather than on a single united party for its support. This could work to Castillo's advantage by making it unnecessary for him to identify himself closely with a single group.

The Party of Anti-Communist Unification, still traveling on its reputation of having been the leading party in opposition to the ousted Arbenz regime, is apparently seeking to be the spokesman of the rightist elements opposed to Castillo. During June it united with a smaller conservative party which is strong in Quetzaltenango, Guatemala's second largest city.

**Economic and Labor Problems**

The administration is still harassed by serious short-range economic problems aggravated by a decline in revenues from coffee, which normally accounts for about 80 percent of the value of exports.

Business conditions have shown marked improvement since April, but unemployment remains high. The government is unable, even with American aid already provided, to finance the public works and social improvements necessary to make good Castillo's promise to do more in two years than the previous Communist-backed regimes did in ten.

The most serious and immediate problem, the critical shortage of corn, Guatemala's most important staple food crop, is being partially alleviated by emergency shipments from the United States.

Urban labor's morale is low. Unemployment and months

of government obstruction before the reorganization of trade unions was permitted have reduced labor to the status of a dispossessed population group.

Conditions have improved in recent months, however, and the administration appears to be surmounting conservative opposition and is showing a more conciliatory attitude. By May, 23 unions had been officially recognized. The announcement of wage increases for some 5,000 United Fruit Company workers in late May has been interpreted by unions as evidence that effective labor negotiations are now possible under the present administration.

Agrarian disturbances can be expected in the between-planting season beginning in November unless the administration makes progress toward healing the breach between the big landowners and the rural workers which the Communists did so much to aggravate during the Arbenz regime. Of the up to 85,000 farm workers who received land under the Arbenz agrarian reform law, about 35,000 remain on their lands. Many landowners, claiming the land was transferred illegally, want the properties returned.

Castillo's agrarian program will be a disappointment to many unless supplemented by other measures. The program is limited to transferring beneficiaries of the old law to other land over a period of five years and makes no provisions for the granting of land to other landless workers. The program may become an issue on which the Communists could make gains.

**Communist Activity**

Communist activity does not appear to be a threat to the stability of the government at present. There are indications

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of a resurgence of Communist activity among politically important student groups, however, and there are many restless and dissatisfied elements which, in a deteriorating economic and political environment, could become targets for subversive action.

A Communist underground organization has circulated propaganda intermittently since last November, and there have been reports of sporadic broadcasting by a clandestine Communist radio transmitter. [REDACTED]

Prospects for Stability

Though Castillo Armas is not a strong or decisive leader, he has exhibited considerable courage and determination in hewing to a generally moderate middle-of-the-road course in the difficult months since he assumed power. Perhaps his greatest asset is his continued wide personal popularity.

Castillo has thus far successfully resisted strong pressures for more authoritarian policies by extreme rightists, both military and civilian, within and outside the administration, and including some prominent officers who fought

with him in last year's anti-Communist liberation.

In the army, the final arbiter of political power, Castillo appears to have promoted a balance of power, however precarious it may be, between the regular army officers and the authoritarian-minded colonels of the "Army of Liberation." Though "Liberation" officers now control most top military positions, Castillo has denied them complete control, with the result that both factions are competing for his favor.

The future of the government will depend in large part on Castillo's ability to conciliate and unite the diverse political, economic, and military interests represented in his administration and to surmount the present economic problems. Failure of the economic situation to improve measurably or inability of the administration to establish and hold organized political support would increase the possibility of a coup.

If the Castillo administration were overthrown in the next few months, it would probably be followed by a government considerably further to the right and one less in tune with popular sentiment. [REDACTED]

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